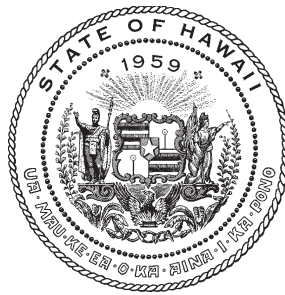


AN INTRODUCTION TO THE GENERAL EXCISE TAX



STATE OF HAWAII
DEPARTMENT OF TAXATION

Linda Lingle
Governor

Kurt Kawafuchi
Director of Taxation

Revised June, 2002



A MESSAGE FROM THE DIRECTOR

Congratulations on starting a business in the State of Hawaii!

This brochure is intended to provide basic information regarding the general excise tax in an easy to follow question and answer format. Should you have any further questions, please telephone, write, or e-mail one of our district tax offices. The telephone numbers, mailing addresses, and e-mail addresses are provided to you at the end of this brochure.

Good luck in your new venture!





1. What is the general excise tax?

The general excise tax is a tax imposed on business activity in Hawaii. This tax is often called a “gross income tax” because the tax is computed on the business’ total gross income derived from doing business in Hawaii and not on the business’ net profit.

2. What is the difference between the general excise tax and a sales tax?

The general excise tax is imposed on the business and is applied at different rates to gross receipts from business activities in Hawaii, including wholesale and retail sales of goods and services. On the other hand, a sales tax is imposed on the customer and generally applies only to retail sales.

3. Can expenses be deducted for general excise tax purposes?

Very few expenses may be deducted. Most business expenses allowed as deductions on your income tax return (e.g. cost of supplies, utility bills, etc.) are NOT deductible on your general excise tax return.

4. Is the general excise tax imposed only on retail sales?

The general excise tax is imposed on income from most types of business activities including (1) wholesaling of goods or services, (2) retailing of goods or services, (3) contracting, (4) renting real property or tangible personal property, (5) interest income from an agreement of sale, (6) commission income, and (7) royalty income.

5. Is there only one rate (the 4% rate) for the general excise tax?

The rates vary from 0.15%, ½ of 1% (0.5%) and 4%.

The 0.15% rate applies to commissions from insurance sales. The 0.5% rate applies to wholesale sales, and most income is taxed at the 4% rate.

Beginning January 1, 2000, the wholesale tax treatment was expanded to include certain transactions involving the sale of goods, services, and amusements. Qualifying transactions that were previously taxed at the 4% retail rate will be taxed at the following rates:

In calendar year 2000, 3.5%;

In calendar year 2001, 3.0%;

In calendar year 2002, 2.5%;

In calendar year 2003, 2.0%;
In calendar year 2004, 1.5%;
In calendar year 2005, 1.0%; and
In calendar year 2006 and thereafter, 0.5%.

Please note that the above rates are not shown on the general excise tax return since the Department of Taxation (Department) is implementing the tax rate change through a deduction from gross income. Form G-81, Phased-In Wholesale Deduction Worksheet, is used to compute the amount of the deduction to claim on the general excise tax return and may be obtained from the Department's website, through the Department's forms by fax/mail service, or from any district tax office. Additional information on the expanded wholesale tax treatment, including an outline, examples, and a quick reference chart, is available at the Department's website.

6. Can I charge my customer for the general excise tax?

There is no law that requires you to charge or to pass on the general excise tax to your customer. As a business practice, you may choose to "charge" your customer for the general excise tax.

Although you are not required to tell your customer the amount of the sales price which will be used to pay your general excise tax, you may choose to separately itemize this amount on your invoice to your customer. The amount itemized is usually represented as a percentage of a basic price and is included in the total gross income subject to the general excise tax. If a separate amount will be added, be sure your customer knows that the additional amount will be charged ahead of time and agrees to pay it. Under consumer protection laws, you cannot pass on an amount which exceeds the actual general excise tax due on the gross income from the transaction.

7. What do I need to do in order to register for the general excise tax?

Start by filling out the State of Hawaii Basic Business Application (Form BB-1). If submitting the application and license fee (see answer to question 8 for fee information) through the mail, submit the original copy and make a copy for your records. Applications may be obtained from the Department's website, through the Department's forms by fax/mail service, or from any district tax office. On Oahu, you also may obtain an application from the Business Action Center on Nimitz Highway or at the Business Action Service Center at the Department of Commerce and Consumer Affairs.

If you are an out-of-state taxpayer doing business in Hawaii on a one-time basis such as a convention or trade show, you may file

Form G-5, Application for General Excise/Use One-Time Event Identification Number, instead of Form BB-1. Form G-5 may be obtained from the Department's website, through the Department's forms by fax/mail service, or from any district tax office.

Form G-5 can be filed electronically through the State's Internet portal at www.eHawaiiGov.org.

8. Is there a fee for registering for the general excise tax?

Yes. There is a one-time \$20 fee that must be paid at the time application is made.

9. If I have more than one business activity, must I register for and obtain a separate identification number for each business activity?

For each separate business entity (e.g., sole proprietorship, partnership, corporation, limited liability company), only one identification number is needed for all of the business entity's business activities. If your business entity has more than one business activity, be sure to list all of them on your application. If your application already has been filed, you may change your application to add or delete other activities. (See answer to question 28 for information on making changes to your application.)

10. After sending in my application form and the fee, what will I receive from the Department?

Approximately 3 to 4 weeks after sending in your application, you will receive your general excise license certificate which shows that you have properly registered to pay the general excise tax. This certificate must be displayed at each place of business. If you have more than one business location, a branch license must be obtained for each additional location. (See answer to question 32 for information on applying for a branch license.)

You will receive your general excise tax forms booklet after you receive your general excise tax license certificate.

11. Is there a way I can get my license sooner?

Yes. If 2 copies of the application and the \$20 fee are brought in person to the Department, an identification number will be assigned, and blank general excise tax forms and a temporary license (a copy of the application validated by the cashier) will be issued to you immediately. Your license certificate will be mailed to you in approximately 3 to 4 weeks. You will receive your general excise tax forms booklet after you receive your license.

IMPORTANT: Applications which are merely dropped off will be treated as if they had been mailed.

12. I bought the assets of an existing business. Do I have to apply for a new general excise license number, or can the existing license be transferred to me?

You must apply for your own license. General excise tax licenses are not transferable.

For example, you purchased the assets of an existing corporation (Corporation A), you formed a corporation (Corporation B), and continued Corporation A's activities in Corporation B. Although you are continuing Corporation A's activities, Corporation B must apply for its own general excise tax license. Corporation A's general excise tax license is not transferable to Corporation B.

13. I noticed that there are references to the "use tax" on the general excise tax forms. What is the use tax?

The use tax is a tax imposed on the landed value of tangible personal property imported from somewhere outside Hawaii to a location within Hawaii. The "landed value" is the value an item has at the time it arrives in Hawaii. It generally includes the sales price, shipping, insurance, handling, and other related costs, but does not include any state or local sales tax paid in another state.

The use tax also is imposed on the value of services or contracting that are performed by an unlicensed seller at a point outside Hawaii and imported or purchased for use in Hawaii. For additional information, you may obtain Department of Taxation Announcement Nos. 99-17 and 2000-15 from the Department's website, through the Department's forms by fax/mail service, or from any district tax office.

Since most businesses in Hawaii are subject to the general excise tax and must pay a tax on the gross income generated by their business activity, they are at a price disadvantage with out-of-State businesses which are not subject to the general excise tax. The use tax complements the general excise tax because it attempts to equalize the price disadvantage by requiring persons acquiring goods, services, and contracting from out-of-State sellers to pay a tax at the same rate that an in-State seller would have paid in general excise tax if the sale had occurred in Hawaii.

For further information, you may obtain a copy of the Department's publication entitled, "An Introduction to the Use Tax," from the Department's website, through the Department's forms by fax/mail service, or from any district tax office.

14. My company is not located in Hawaii, but we may have isolated sales to customers in Hawaii. Are we subject to the use tax on the goods imported to Hawaii for sale to our Hawaii customers, and are we also subject to the general

excise tax on the gross income we derive from the sales to our Hawaii customers?

Your company may or may not be subject to the use and general excise taxes depending on your situation.

Your company is not subject to the taxing jurisdiction of Hawaii, including the use and general excise taxes, if it does not have sufficient presence in Hawaii. If your company sends goods to your customers via the mail or common carrier, does not have an office, employees, representation, inventory or property in Hawaii, and does not provide supplementary services in Hawaii such as installation, training, or maintenance and repair, your company generally would not be subject to either the use tax or the general excise tax.

If, however, your company has sufficient presence in Hawaii for any period of time, then your company will be subject to the taxing jurisdiction of Hawaii for both the use and general excise taxes. If so, your company should apply for a general excise tax license. For additional information, you may obtain Tax Information Release 95-5 from the Department's website, through the Department's forms by fax/mail service, or from any district tax office.

15. How often do I need to file general excise tax returns?

General excise/use tax returns must be filed throughout the year either monthly, quarterly, or semiannually. How often you file depends on the amount of general excise tax your business has to pay during the year.

You may file semiannually (every 6 months) if you will pay \$2,000 or less in general excise tax per year. For example, if you are taxed at the rate of 4%, and if you have \$50,000 or less in total gross income for the year, you may file semiannually.

You may file quarterly (every 3 months) if you will pay \$4,000 or less in general excise tax per year. For example, if you are taxed at the rate of 4%, and if you have \$100,000 or less in total gross income for the year, you may file quarterly.

You must file monthly if you will pay more than \$4,000 in general excise tax per year.

Taxpayers whose total annual general excise and use tax liability exceeds \$100,000 are required to make their payments by electronic funds transfer (EFT). For additional information, you may obtain Tax Information Release 95-6 and Department of Taxation Announcement 2002-4 from the Department's website, through the Department's forms by fax/mail service, or from any district tax office.

16. What form do I use to report my gross income and my general excise tax?

Form G-45, the periodic tax return, is used to report your gross income and to pay your general excise tax. The general excise tax forms booklet contains 2 copies of Form G-45 for each filing period. One copy is filed with the Department, and the other is kept for your records.

As a cost savings measure, the Department is now issuing general excise tax forms booklets according to your filing status. Thus if you are a quarterly filer, the booklet will contain only quarterly tax returns. If you are a semiannual filer, only semiannual tax forms will be enclosed in your booklet. Also, calendar year taxpayers now receive their booklets on a staggered schedule rather than all at once. Monthly filers should receive their booklets by the end of January, quarterly filers should receive their booklets by the end of March, and semiannual filers should receive their booklets by the end of June.

17. Must I file a periodic tax return if I did not have any business income during the filing period?

A periodic tax return must be filed even if you do not have any gross income to report for the filing period. If there is no gross income to report, write a zero (0) in each column of the line for your main business activity.

18. Must I enter a number in each of the columns for all the business activities listed on the return?

No. However, you must enter a number in every column (a-d), for each business activity you engaged in during the filing period. If you have nothing to report in a particular column, you must enter a zero (0) in that column; you may not leave it blank. For example, if you registered for retailing and had no retail sales during the filing period, you must enter zero (0) in columns a, b, c, and d of line 8, retailing.

19. Are there any other lines or columns which must be completed?

Yes. You must complete the lines for "Total Taxes Due," and "Grand Total Exemptions/Deductions From Back of Form."

20. What will happen if the form is not correctly completed?

If the return is improperly completed, you may receive a letter from the Department requesting an explanation.

21. When are the periodic tax returns due?

Periodic tax returns are due one month following the close of the filing period; that is, you have one month to file them. For example, the tax return for the semiannual period January through June must be filed on or before the last day of July.

A return is filed on time if it is dropped off at the Department or postmarked on or before the due date of the return. In addition to the U.S. Postal Service, certain private delivery service companies designated by the Internal Revenue Service can be used to meet the due date provided that the date recorded or marked by the private delivery service company is on or before the due date of the return. If the due date falls on a weekend or State holiday, the tax return is considered timely filed if filed on the first work day immediately following that weekend or holiday.

22. What should I do if I have income from more than one kind of business activity?

If you have more than one activity, the gross income must be separated by type of activity on your general excise tax return.

For example, if you engage in both wholesaling and retailing, gross income derived from wholesaling must be entered on line 1, and gross income derived from retailing must be separately entered on line 8.

23. What is the annual tax return?

The annual general excise tax return (Form G-49) is a summary of your activity for the entire year. There will be no additional tax due if there are no changes to the gross income, exemptions and deductions, taxable income, and taxes due reported on and paid with the periodic tax returns.

The annual tax return also may be used to make corrections to the amounts previously reported. For example, if you forgot to claim an allowable deduction such as a refund on returned goods or a bad debt write-off, you may include the deduction on the annual return. Doing so will lower your tax due for the year and may result in a refund.

24. Can I skip the periodic tax returns and just file the annual return?

No. You must file both the periodic tax returns and the annual tax return.

25. When is the annual tax return due?

The annual tax return is due on the twentieth day of the fourth month following the close of your taxable year. For example, the annual return for a calendar year taxpayer must be filed on or before April 20. (If you are not sure what your taxable year is, check your copy of the application, Form BB-1.)

A return is filed on time if it is dropped off at the Department or postmarked on or before the due date of the return. In addition to the U.S. Postal Service, certain private delivery service companies designated by the Internal Revenue Service can be used to

meet the due date provided that the date recorded or marked by the private delivery service company is on or before the due date of the return. If the due date falls on a weekend or State holiday, the tax return will be considered timely filed if filed on the first workday immediately following that weekend or holiday.

Extensions of time to file your general excise annual tax return may be requested by filing Form G-39. Extensions may be granted for periods of no more than 3 months at a time and no more than 6 months in total. This is not an automatic extension and may only be granted for a good reason. An extension of time to file is NOT an extension of time to pay the tax, and a check for any additional tax due must be attached to the Form G-39.

Form G-39 can be filed electronically through the State's Internet portal at www.eHawaiiGov.org.

REMINDER: Do not attach your annual general excise tax return to your income tax forms.

26. What should I check before I file my tax returns?

Make sure all required entries are made and check your math calculations. Be sure to sign and date the tax return. Your check, made payable to the "HAWAII STATE TAX COLLECTOR" in U.S. dollars, should be attached to the tax return. Write the filing period, the form number, and your license number on the check so that your payment will be properly credited if it is accidentally separated from the tax return.

27. Where do I file my tax returns?

Your completed periodic and annual tax returns must be signed, dated, and submitted with any payments to the Department. Mailing addresses are printed on the cover of your general excise tax forms booklet.

Forms G-45 and G-49 can be filed electronically through the State's Internet portal at www.eHawaiiGov.org.

NOTE: If you do not require a general excise tax booklet because you electronically file the Form G-45 and G-49, please contact the Department to suppress mailing a booklet to you.

28. What are the other forms in my general excise tax forms booklet used for?

In addition to the periodic and annual tax returns, there are three other forms in your booklet.

Notification of Cancellation (Form GEW-TA-RV-1) This form must be filed if you terminate your business and no longer need a general excise license. Without notification, the Department will NOT cancel your license at the end of the year. If you stop filing

your tax returns, you will be subject to a compliance inquiry. Your license certificate(s) must be returned with the cancellation form.

Change of Address Form (Form GEW-TA-RV-2) This form is only used to change your mailing address and/or business address. It may not be used for any other changes.

General Excise/Use, Employer's Withholding, Transient Accommodations and Rental Motor Vehicle & Tour Vehicle Surcharge Application Changes Form (Form GEW-TA-RV-5) This form is used to make other changes to the information on your general excise license. Examples of common changes include: changing your filing period (e.g. from semiannual to quarterly); adding or deleting various business activities; adding or deleting the partners or corporate officers of your business; and changing your last name upon marriage.

Be sure that the form includes your name as it appears on your license, your license number, and all of the information the Department will need to make the change. In addition, the Department may ask you to provide copies of supporting documents.

29. Must I cancel my license if I terminate my current business but plan to start another business in the future?

No, there are 2 other options.

First, you may continue to file your periodic and annual general excise tax returns on which you report zero (0) income and tax due. (See answer to question 17 above.)

Second, you may file a written request with the Department asking that your license be temporarily placed on an inactive status for a period of 2 years. If you have not yet started a new business at the end of the 2-year period, you may file a written request with the Department asking to extend the inactive period for an additional 2 years. You may have an inactive license reactivated at any time by notifying the Department in writing, otherwise, at the end of the 2 year inactive period your license will automatically become active again. You must file your annual general excise tax returns for each year of inactive status.

30. What happens if I don't pay my general excise tax on time?

Penalties and interest are assessed on late filed returns or taxes not paid by the due date of the tax return.

If the tax return is filed after the due date, a penalty is assessed on the taxes due at the rate of 5% per month, or part of a month, up to a maximum rate of 25%. If the tax return is filed on time but no payment or insufficient payment is received, a penalty of 20% of the unpaid balance will be assessed if the tax is not paid within 60 days of the due date of the tax return.

Interest is assessed at the rate of 2/3 of 1% per month on the entire unpaid tax and penalty.

Any payment you make first will offset the interest owed, then the penalty, and finally the tax itself.

For EFT filers, a penalty of 2% of the amount of the tax due will be assessed if a taxpayer who is required to make payments by EFT fails to do so without reasonable cause.

31. Will the Department revoke my license if I don't file any general excise tax returns?

Yes. In general, the Department may revoke your license if no returns are filed for 5 years, and if attempts to contact you are unsuccessful. This 5-year period does not include periods during which your license is on inactive status. (See answer to question 29 above.)

32. How do I get a branch license?

In general, only one license certificate with your name and one business name is issued. If, however, you require additional certificates because you have more than one business location at which the license must be displayed, or if you have more than one business name, a branch license application (Form G-50) may be filed. Form G-50 may be obtained from the Department's website, through the Department's forms by fax/mail service, or from any district tax office.

33. What should I do if I find a mistake on my general excise tax return?

If you discover that an error has been made on a periodic tax return already filed with the Department, an amended periodic tax return (Form G-54) must be filed. The amended periodic tax return may be used only if the annual tax return for that tax year has not yet been filed.

If correcting the error results in a tax credit, the credit will be refunded to you. Any additional tax due should be paid with a check attached to your amended periodic tax return.

If you discover that an error has been made on an annual tax return already filed with the Department, an amended annual tax return (Form G-55) must be filed. Any tax credit claimed will be refunded to you; you may not carry the credit forward to a subsequent tax year. Any additional tax due should be paid with a check attached to your amended annual tax return.

Amended periodic and annual tax returns may be obtained from the Department's website, through the Department's forms by fax/mail service, or from any district tax office.

34. How does paying my general excise tax affect my state income tax?

The general excise tax may be taken as a business expense deduction. Any general excise tax you pay may NOT be taken as a credit against your income tax liability.

35. How long should I keep the records used to prepare my general excise tax returns?

Every taxpayer shall keep in the English language within the State, and preserve for a period of 3 years, suitable records of gross proceeds of sales and gross income, and such other books, records of account, and invoices as may be required by the Department.

36. After I have filed my annual return, how long does the Department have to assess or levy additional taxes?

General excise taxes shall be assessed or levied within 3 years after the annual return was filed, or within 3 years of the due date prescribed for the filing of said return, whichever is later, and no proceeding in court without assessment for the collection of any such taxes shall be begun after the expiration of the period.

37. How much time do I have to claim a refund if I determine that I have overpaid my general excise taxes?

If you filed the annual return by the required due date, you may submit a claim for refund for overpayment within 3 years of filing the annual return.

For example, you are a calendar year taxpayer. You filed the 2000 calendar year annual return on April 20, 2001. You discover you overpaid your general excise tax for calendar year 2000 after you filed the annual 2000 return. You have until April 20, 2004 to file your claim for a refund.

38. How can I get help if I have any additional questions about the general excise tax?

Instructions for completing general excise tax returns may be found in the general instructions for filing the general excise/use tax return.

You also may contact any district tax office for additional information and forms. The mailing addresses, telephone numbers, and e-mail addresses for all the district tax offices are listed at the end of this brochure.

NEED TO CONTACT A DISTRICT TAX OFFICE?

The mailing addresses, locations, telephone numbers, fax numbers, and e-mail addresses are listed below:

OAHU DISTRICT OFFICE

First Taxation District
P. O. Box 259
Honolulu, HI 96809-0259

Princess Ruth Keelikolani Bldg.
830 Punchbowl St.
Honolulu, HI 96813-5094

TAXPAYER SERVICES

Information: (808) 587-4242
1-800-222-3229

COMPLIANCE DIVISION

TDD/TTY: (808) 587-1419
1-800-961-5369

TDD/TTY: (808) 587-1418
1-800-887-8974

Field Audit Branch

(808) 587-1700
Fax No.: (808) 587-1699
Field_Audit@tax.state.hi.us

Fax No.: (808) 587-1488

Taxpayer_Services@tax.state.hi.us

Office Audit Branch

(808) 587-1660
Fax No.: (808) 587-1633
Office_Audit@tax.state.hi.us

FORMS BY FAX/MAIL

(808) 587-7572
1-800-222-7572

Collection Branch

(808) 587-1600
Fax No.: (808) 587-1720
Oahu_Collection@tax.state.hi.us

MAUI DISTRICT OFFICE

Second Taxation District
P. O. Box 1169
Wailuku, HI 96793-6169

State Office Building
54 S. High St., #208
Wailuku, HI 96793-2198

Telephone No.: (808) 984-8500
E-mail: Maui_Office@tax.state.hi.us

Fax No.: (808) 984-8522

HAWAII DISTRICT OFFICE

Third Taxation District
P. O. Box 833
Hilo, HI 96721-0833

State Office Building
75 Aupuni St., #101
Hilo, HI 96720-4245

Telephone No.: (808) 974-6321
E-mail: Hilo_Office@tax.state.hi.us

Fax No.: (808) 974-6300

KAUAI DISTRICT OFFICE

Fourth Taxation District
3060 Eiwa St., #105
Lihue, HI 96766-1889

State Office Building
3060 Eiwa St., #105
Lihue, HI 96766-1889

Telephone No.: (808) 274-3456
E-mail: Kauai_Office@tax.state.hi.us

Fax No.: (808) 274-3461



NEED MORE INFO?

The Department wants to cut some of the red tape and reduce the bureaucracy faced by Hawaii taxpayers.

If you have a state tax problem, have a question, or need assistance, dial toll-free:

1-800-222-3229

JUST NEED A TAX FORM?

Ask for your form and CD-ROM order form by fax/mail by dialing:

(808) 587-7572

1-800-222-7572

INTERNET ADDRESS?

Tax information and tax forms also are available on the Internet at:

www.state.hi.us/tax

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